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SUBJECT: SCENESETTER FOR INAUGURATION DELEGATION

¶1. (SBU) Embassy Quito warmly welcomes the delegation headed by Senator Bob Graham for the inauguration of President Correa on August 10, held on the 200th anniversary of Ecuador's first call for independence. While we do not agree with the Correa government on every issue, we have enjoyed strong cooperation in some areas and seek to continue a productive partnership.

¶2. (SBU) The "Grito de Independencia" on August 10, 1809, was not the date that Ecuador actually gained independence. Although a group of Quito citizens overthrew the president of the Royal Audience of Quito (a Spanish colonial administrative unit) on that date and established an autonomous government, Spanish troops reasserted control a few months later and killed those involved in the rebellion. Ecuador won its independence from Spain as part of "Gran Colombia" in 1822, and then became the Republic of Ecuador in 1830 when it split from Gran Colombia.

¶3. (SBU) The inauguration will take place in the National Assembly building's main meeting room. Just to be aware, at the front of that room is a modern mural by a famous Ecuadorian painter, Mario Oswaldo Guayasamin, called "Ecuador Frustration and Hope." This mural, which seeks to capture the protagonists of Ecuadorian history, includes an anti-U.S. piece that has a Darth Vader-like black figure with CIA written underneath. When former Secretary of State George Schulz visited the Assembly in 1988, he expressed considerable displeasure at the depiction. Because of that incident, many Ecuadorians believe high-level U.S. officials are reluctant to attend events in the Assembly. While this is not true, you may have some media interest in visible reactions to the offensive mural.

¶4. (SBU) The presidents of Argentina, Bolivia, Brazil, Chile, Cuba, Dominican Republic, El Salvador, Guyana, Honduras (Zelaya), Paraguay, Peru, Nicaragua, Saharawi Arab Democratic Republic (which which we do not have diplomatic relations), Suriname, and Venezuela will attend the ceremony. Prince Felipe of Asturias of Spain; the prime ministers of Antigua and Barbuda, Saint Vincent and the Grenadines; and the vice presidents of Algeria, Guatemala and Uruguay, as well as 17 foreign ministers, will also attend. Representatives from international organizations will include the Organization of American States (Insulza and his deputy) and the Andean Development Corporation (Enrique Garcia). We understand that Iran may be represented by its Commerce Minister.

#### U.S. Activities Related to the Bicentennial

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¶5. (SBU) The Embassy has identified two emblematic documents in a local archive that will be restored with Embassy funding as part of the USG contribution to the bicentennial celebrations: a handwritten copy of the Ecuadorian national

anthem from the 1860s, and one of the earliest maps of Ecuador produced by renowned Ecuadorian scholar and scientist Pedro Vicente Maldonado in 1750. In June 2009, the Embassy sponsored the visit of a jazz quartet from New York for a series of concerts in three cities, which was also linked to the cultural celebrations for the bicentennial. In February 2009, the Embassy and the Municipality of Quito jointly re-dedicated the Plaza Abraham Lincoln directly in front of the Ambassador's residence. During the public ceremony on Lincoln's birthday, the Ambassador's remarks linked the bicentennial of Lincoln's birth to the Ecuadorian bicentennial in 2009.

#### Domestic Political Developments

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¶6. (SBU) Ecuador has been a fragile democracy caught in cycles of political instability, reflecting popular disillusionment with traditional power structures and weak institutions. Rafael Correa was elected to his first term in 2006 by successfully presenting himself as the "change" candidate. He is the first president since the 1979 return to democracy to enjoy sustained popularity in all regions of the country and among a broad array of class and demographic groups.

¶7. (SBU) A core element of Correa's political program was convoking a Constituent Assembly to draft a new constitution, Ecuador's 20th. Nearly 64% of voters approved the constitution in a September 28, 2008 referendum. Proponents believe it will give the citizens a real voice in government decisions and expand guarantees of rights. Critics fear that it will centralize power in the Executive and result in drastically increased government spending.

¶8. (SBU) Elections were held in April 2009, two years into Correa's term, as required under the new constitution. Correa was re-elected in the first round, taking 52 percent of the vote, compared to 28 percent for former president Lucio Gutierrez, his nearest rival. Correa's Proud and Sovereign Fatherland (PAIS) movement also won the largest legislative block in the new National Assembly, although not a majority. PAIS did not fare as well in local elections, winning only 72 of 221 mayoral offices and eight of 23 prefect positions.

#### Economic Outlook and Policies

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¶9. (SBU) Ecuador's economic performance has been solid since it adopted the dollar as its currency in 2000, following a major banking crisis and recession in 1999. Growth has been supported by the stability brought by dollarization, high oil prices, strong domestic consumer demand, increased non-traditional exports, and growing remittances from abroad. Per capita income increased from \$1,296 in 2000 to \$3,670 in 2008, and the poverty rate fell from 51% in 2000 to 42.6% in ¶2007. Real economic growth declined in 2007 to 2.5% (after a six-year average of 5.18%), due in part to declining oil production, but also uncertainty about the direction of economic policy under the Correa Administration.

¶10. (SBU) Growth has been modest in 2008 (5.3%) and early ¶2009. By the end of 2008, the global financial crisis and economic downturn led to falling remittances and oil revenues for Ecuador. In January 2009, claiming a balance of payments crisis, the government invoked the WTO balance of payments safeguard provision to increase tariffs beyond WTO bindings and impose quotas on consumer goods. The government also announced that it was cutting or restricting public sector spending, and was reducing subsidies in a number of areas.

¶11. (SBU) President Correa entered office looking to make a number of changes to the economic system in Ecuador and address a number of unmet social needs. His government has increased income transfers to the poor and increased spending on health education and basic infrastructure, although given weak government institutions, it has been slow in

implementing some of these programs. The overall direction of economic policy under the Correa Administration is difficult to define, in part because there are often differences between Correa's public discourse - which can be populist - and his policy decisions - which are often more pragmatic. The Correa Administration is strengthening government regulation over certain sectors and increasing the government's revenue from sectors such as petroleum and mining, but the government appears intent on maintaining an important role for the private sector even in these strategic sectors.

¶12. (SBU) The new constitution envisions a strong role for the state in the economy, although a number of important provisions, such as identifying strategic sectors and including a social dimension to the definition of property, have parallels in the previous constitution. Many of the economic provisions in the new constitution will have to be further clarified by implementing legislation.

#### Economic Ties with the U.S.

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¶13. (SBU) The United States is Ecuador's most important trading partner, accounting for 37% (\$409 million) of its exports and 26% (\$286 million) of its imports in 2008. The Andean Trade Preferences Act (ATPA), which Congress extended until December 2009, has helped promote a number of new, labor-intensive export industries in Ecuador, such as flowers and processed vegetables. The Government of Ecuador estimates that ATPA supports 350,000 jobs in Ecuador. U.S. companies and individuals have invested in a wide range of Ecuadorian industries. Investors in regulated sectors such as petroleum and electricity have a number of investment disputes, while those in more lightly regulated sectors have had relatively few disputes. The United States and Ecuador have a bilateral investment treaty, and several U.S. investors have filed for international arbitration with the World Bank's International Center for the Settlement of Investment Disputes (ICSID) under the treaty. On July 12, 2009 President Correa issued a decree in which Ecuador formally withdrew from ICSID. This decision does not affect arbitration cases that ICSID already has under consideration.

#### Ecuador Foreign Policy

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¶14. (SBU) President Correa controls Ecuador's foreign policy decision-making. His main foreign policy strategies are to establish and maintain constructive relations with a wide variety of countries and to promote Latin American integration. His goal is to strengthen South American institutions and expand the number of Ecuador's political and commercial partners (which also reduces its dependence on the United States), while protecting the country's national sovereignty.

¶15. (SBU) The regional organizations where Ecuador is most active are the nascent Union of South American Nations (UNASUR) and the Venezuelan-led Bolivarian Alternative for the Americas (ALBA). Ecuador will assume the presidency of UNASUR the morning of the same day of Correa's inauguration, August 10. There has been friction between Ecuador and other members of the Andean Community (CAN), but it remains a member of that grouping. Ecuador also supports the Bank of the South and the new council of South American defense ministers. In addition, it participates in Rio Group meetings.

¶16. (SBU) In the region, the Correa administration enjoys good relations with Brazil, Peru, Argentina and Chile, in addition to Venezuela and Cuba. Correa has made a number of visits to Europe, particularly Spain and Italy (which have large numbers of Ecuadorian immigrants), Belgium (where he once studied and the birthplace of his wife), and France. In addition, President Correa has demonstrated an interest in strengthening bilateral relations with China, Iran, and Russia. He traveled to China in November 2007 and Iran in

December 2008, and plans to visit Russia in October 2009.

¶17. (SBU) President Correa remains unwilling at this point to reestablish diplomatic relations with Colombia, despite ongoing mediation efforts by the Organization of American States. The GOE set five conditions that Colombia must meet before resuming diplomatic relations, including ending what it considers a Colombian information campaign against Ecuador and handing over the information found on the computers at the site of the attack on March 1, 2008. Also, since July 13, Ecuador has applied a foreign exchange safeguard measure to Colombian imports, as a measure to "protect Ecuadorian products from Colombia's currency devaluation." Despite the break in relations and Ecuador's protectionist measures, commercial ties remain strong and consular operations continue in both countries.

#### U.S.- Ecuador Relations

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¶18. (SBU) The U.S. is cooperating with Ecuador in a number of areas where we share interests, including poverty reduction, counter-narcotics, and environmental protection. The low point of our relationship under the Correa administration was in February, when Correa expelled two U.S. diplomats following the suspension of assistance to two specialized police units as a result of disagreement over implementation of long-standing procedures under which the two countries jointly vet personnel to ensure their integrity before sensitive information is shared with them. The U.S. and Ecuador are currently moving ahead to conclude agreements to formalize and re-initiate some areas of cooperation with the Ecuadorian police.

¶19. (SBU) The U.S. launched a Bilateral Dialogue with Ecuador in November 2008 during which we discussed cooperation in human development and poverty reduction, economic development, commerce and investment, and migratory issues. When Foreign Minister Fander Falconi met with the Secretary of State on June 12 in Washington, the two agreed to continue the Dialogue. Preparations have begun for the second plenary session, likely to occur in late October. The GOE recently proposed adding a security pillar to the Dialogue agenda. Our objectives for the Dialogue include emphasizing publicly and privately the breadth of our cooperation, advancing current areas and exploring new areas of cooperation. We do not consider it a negotiating forum.

#### Security

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¶20. (SBU) Ecuador's greatest security challenge remains the presence of Colombian illegal armed groups, principally elements of the Revolutionary Armed Forces of Colombia (FARC), in its northern border region. The FARC is believed to use Ecuadorian territory for rest, recuperation, resupply, and training. The Correa Administration, while maintaining the country's traditional neutrality with respect to the Colombian conflict, has opposed armed encroachments across its borders. While there have been some notable successes in this effort, insufficient resources and the challenging border region terrain have made it difficult to thwart cross-border incursions.

¶21. (U) USG efforts in the area aim to prevent spillover of drug cultivation and trafficking and illegal armed group activity into Ecuador. They include development assistance to improve the quality of life and spur licit economic growth; counter-narcotics aid to curb smuggling of precursor chemicals, cocaine, and heroin; and military-to-military assistance to strengthen Ecuador's ability to secure its northern border and control its territorial waters.

#### Refugee Issues

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¶22. (U) The UN High Commissioner for Refugees (UNHCR) estimates there are at least 180,000 persons of concern in

the northern provinces of Ecuador who have fled Colombia due to violence or threat of violence. In 2009, the State Department provided over \$1 million in funding for refugees in Ecuador to UNHCR, and another \$1.5 million to the International Organization for Migration (IOM), the World Food Program, and a handful of NGOs. UNHCR carries out direct assistance projects to foster development, while IOM focuses on emergency assistance and local capacity building. Since April 2009, the GOE has been implementing its Enhanced Registration Program, a process by which it hopes to register 50,000 Colombian refugees by the end of 2009.

¶23. (SBU) The GOE's June 20, 2008 announcement that it would drop the tourist visa requirement for all nationalities has encouraged an inflow of migrants, adding to the current presence of small immigrant populations from countries such as China, Cuba, Afghanistan, Pakistan, and Iran. The new 90 day visa waiver has also created numerous humanitarian problems, including an increase in human smuggling, counterfeiting of travel documents, forced labor and corruption. DHS has already documented an increase of migrants wishing to use Ecuador as a stopping point on the way to the United States.

#### Counter-Narcotics Cooperation and Military Support

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¶24. (SBU) Ecuadorian leaders have identified narcotics traffickers and other criminal organizations as threats to national sovereignty, and are focusing the police, military, judiciary and others on disrupting and dismantling these organizations. Since 2001 the Embassy's Narcotics Affairs Section has provided almost \$94 million of State Department funds to enhance the capacity of the anti-narcotics police throughout Ecuador, assist the military in providing security for citizens and protecting Ecuador's sovereignty on the northern and maritime borders, and improve the criminal justice system. The Military Group has also provided an additional \$20 million to the Ecuadorian military to enhance its operational capacity in the northern border region.

¶25. (SBU) The Manta Forward Operating Location (FOL) was an important asset in our regional counter-narcotics efforts. President Correa campaigned on a platform that the FOL violated Ecuador's sovereignty. On July 29, 2008, the GOE sent a diplomatic note notifying the U.S. that it would not extend the agreement when it expired on November 11, 2009. The United States flew the last counter-narcotics flight on July 17, 2009 and will turn over the facility on September 18, 2009.

#### Development Programs

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¶26. (U) The U.S. has supported Ecuador's development since 1942, working especially through USAID in education, health and family planning, environment, agriculture, micro-enterprise, and economic growth. USAID's 2009 funding is \$26 million. Current programs focus on cooperation with national and local governments to improve stability and livelihoods, democratic governance, economic growth and environmental management.

¶27. (U) USAID's Peace and Security program along the northern and southern borders aims to increase employment and income, strengthen local governments, and improve the production and marketing of local business clusters. In FY 2008, USAID financed the construction of 39 infrastructure projects including roads, bridges, irrigation canals, and water and sanitation systems, benefiting 36,364 people along the northern border. USAID also created 2,754 new full-time equivalent, legitimate jobs in the northern border region; farmers' income increased on average 22 percent, from \$983 to \$1,200; and 2,000 new hectares of legal crops were planted.

¶28. (U) USAID's broader poverty reduction program promotes trade and competitiveness and private sector competitiveness. USAID created new supply and value-chains where small



producers and businesses have now become specialized suppliers for larger firms with local and international markets. In FY 2008, USAID invested \$704,279 and the Ecuadorian private sector contributed \$784,564 to create 10 value chain activities. These clusters are in agro-industrial export sectors such as dairy products, hearts of palm, Panama hats, and jewelry. As a result of this effort, revenues increased for 1,865 small and medium firms.

¶29. (U) Under democracy and governance, USAID has supported 56 local governments to implement participatory planning processes and improve their municipal management practices. More than 1,000 citizens and local officials in 16 cities received training in areas such as financial management, citizen participation, and budgeting. One result of this assistance was that in just three months the municipalities reduced delinquent taxes by 4 percent and in two municipalities a two-month "lightning plan" helped municipalities recover approximately 10 percent of back taxes.

¶30. (U) Ecuador is one of the most biologically diverse countries in the world, so USAID's environmental programs focus on management of the National System of Protected Areas, indigenous territories, watersheds, and coastal lowlands and mangroves. The program seeks to create economic benefits for communities in and around protected areas, providing the means and motivation for better conservation.

HODGES